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ORIGIN EB-07

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FM SECSTATE WASHDC

TO AMEMBASSY PRAGUE

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E.O. 11652:N/A

TAGS: EAIR, CZ

SUBJECT: CIVAIR: EXTENSION OF BILATERAL CIVIL AVIATION
AGREEMENT

REF: PRAGUE 322 AND PREVIOUS

SUMMARY: GIVEN AMONG OTHER THINGS PAN AM'S PRESENT INTEN-
TIONS TO CONTINUE SERVICE TO PRAGUE - AT LEAST THROUGH END
OF SUMMER 1975 - AND OUR INTEREST IN AVOIDING FURTHER BUR-
DENS ON RELATIONS WITH CZECHOSLOVAKIA FOLLOWING LONG/
GRAVEL, WE CONCLUDE THAT PRESENT CIVAIR AGREEMENT SHOULD
BE EXTENDED FOR AN ADDITIONAL YEAR BEYOND MAY 31, 1975. WE
NOTE, HOWEVER, THAT CSA DERIVES SUBSTANTIALLY GREATER
BENEFITS FROM PRESENT CIVAIR ARRANGEMENT THAN PAN AM
DUE IN LARGE PART TO EXCESSIVE INTERMEDIATE TRAFFIC WHILE
AT SAME TIME PAN AM IS DENIED FULL ACCESS TO CZECHOSLOVAKIA
ORIGINATING TRAFFIC. SINCE MUCH OF THE DIFFICULTY ORIGIN-
ATES WITH CSA'S PERFORMANCE AS PAN AM'S GENERAL SALES
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AGENT, WE BELIEVE IT WOULD BE HELPFUL TO DELAY INDICATING

US WILLINGNESS TO EXTEND PRESENT AGREEMENT AND IN MEANTIME TO EXPRESS US DISSATISFACTION WITH PRESENT SITUATION AND TO RECOMMEND TO CZECH AUTHORITIES THAT THEY ENABLE CSA TO HOLD INTER-CARRIER TALKS WITH PAN AM. END SUMMARY.

1. PAN AM HAS RECENTLY DECIDED TO CONTINUE SERVICE TO PRAGUE - AT LEAST THROUGH THE END OF THE SUMMER 1975 SEASON - AND TO INITIATE SCHEDULED SERVICES TO OTHER EASTERN EUROPEAN POINTS. TRAFFIC STATISTICS SHOW THAT BUSINESS AND ETHNIC ORIENTED US-EASTERN EUROPE MARKETS HAVE SUSTAINED GROWTH - ALBEIT FROM A SMALL BASE, WHILE MORE TOURIST ORIENTED US-WESTERN EUROPEAN MARKETS HAVE DECLINED DURING PAST YEAR. MOREOVER WE SHARE EMBASSY'S CONCERN THAT TERMINATION OF AGREEMENT WITHOUT RENEWAL COULD BE RELATED IN CZECH MINDS TO DEGREE OF US INTEREST IN NORMALIZING RELATIONS FOLLOWING LONG/GRAVEL AMENDMENT TO TRADE ACT. FINALLY, TERMINATION OF THE AGREEMENT IN MAY DOES NOT GIVE CSA ADEQUATE TIME TO PHASE OUT ITS US ACTIVITIES SMOOTHLY AND WOULD LEAVE A VACUUM IN AIR SERVICES BETWEEN THE US AND CZECHOSLOVAKIA. THEREFORE, WHILE WE DO NOT BELIEVE PRESENT AGREEMENT SHOULD BE REVISED IN FAVOR OF CZECHOSLOVAKIA, BELIEVE IT SHOULD BE EXTENDED IN ITS PRESENT FORM FOR AN ADDITIONAL YEAR.

2. WE NOTE, HOWEVER, THAT CSA DERIVES SUBSTANTIALLY GREATER BENEFITS UNDER PRESENT AGREEMENT THAN PAN AM. SMALL SIZE OF PRIMARY US-CZECHOSLOVAKIA MARKET HAS ENCOURAGED CSA TO RELY ON AN EXCESSIVE SECONDARY TRAFFIC COMPONENT CONTRARY TO ARTICLE VIII (4) OF THE BILATERAL AGREEMENT. IN 1973, FOR EXAMPLE, PAN AM'S THIRD/FOURTH FREEDOM (PRIMARY) TRAFFIC AMOUNTED TO 96 PERCENT OF THE TOTAL WHILE CSA'S THIRD/FOURTH FREEDOM TRAFFIC AMOUNTED TO ONLY 51 PERCENT OF THE TOTAL. WITH RESPECT TO BENEFITS DERIVED UNDER THE AGREEMENT, PAN AM ESTIMATES IT EARNED REVENUES (IN \$000) OF \$803 AND \$32 FROM NEW YORK-PRAGUE AND THIRD COUNTRIES - PRAGUE TRAFFIC RESPECTIVELY. DURING THE SAME PERIOD, IT IS ESTIMATED THAT CSA EARNED REVENUES (IN \$000) OF \$1630 AND \$1496 FROM PRAGUE -NEW YORK AND THIRD COUNTRIES - NEW YORK TRAFFIC RESPECTIVELY. IT IS CLEAR FROM THE ABOVE THAT PAN AM IS BEING DISADVANTAGED BY LIMITED OFFICIAL USE

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CHARACTER OF CSA TRAFFIC WHICH IS INCONSISTENT WITH THE BILATERAL AND BY APPARENT LACK OF ACCESS TO CZECHOSLOVAKIA-ORIGINATING MARKET, PERHAPS CONTRARY TO ARTICLE VIII (1) OF THE AGREEMENT.

3. FOR A NUMBER OF REASONS - NOT THE LEAST OF WHICH IS THAT FORMAL NEGOTIATIONS WILL PROVIDE CZECHS WITH OPPORTUNITY TO PRESS FOR ADDITIONAL CONCESSIONS WHICH WE ARE

UNABLE TO GIVE - AGREEMENT SHOULD EVENTUALLY BE EXTENDED
IN PRESENT FORM WITHOUT TALKS BY EXCHANGE OF NOTES IN
PRAGUE. IN MEANTIME WE SHOULD SEEK RESOLUTION OF DIFFICULTIES DESCRIBED ABOVE AND ARE INCLINED TO BELIEVE THIS
MAY BE ACHIEVED AT THE AIRLINE LEVEL. ACCORDINGLY,

EMBASSY SHOULD DRAW ON PARA 2 ABOVE AND EXPRESS USG UNHAPPINESS WITH PRESENT CIVIL AVIATION ARRANGEMENTS AND
RECOMMEND TO CZECH AUTHORITIES THAT THEY ENCOURAGE CSA
TO PARTICIPATE IN EARLY INTER-CARRIER TALKS WITH PAN AM
IN EFFORT TO RESOLVE THESE DIFFICULTIES. IN DOING SO,
EMBASSY SHOULD INFORM CZECHS THAT USG WILL AUTHORIZE PAN
AM TO HOLD TALKS WITH CSA AND THAT USG WILL MAKE DECISION
REGARDING EXTENSION OF AGREEMENT FOLLOWING PAN AM'S REPORT
OF RESULTS SUCH TALKS. PAN AM WILL PROPOSE TALKS WITH CSA
WHEN EMBASSY HAS APPROACHED CZECHS AND ADVISES US IT HAS
DONE SO.

4. PLEASE REPORT CZECH REACTION ASAP. KISSINGER

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